QUAEROCAPITAL

PILLAR 3 DISCLOSURES

Based on audited financial statements as at 31st March 2019

Quaero Capital LLP
2-4 King Street
London, SW1Y 6QL
T +44 207 747 5770

compliance.uk@quaerocapital.com
quaerocapital.com

Quaero Capital LLP – Pillar 3 Disclosures

Overview

Disclosures

These disclosures have been prepared by Quaero Capital LLP to meet the qualitative and quantitative disclosure requirements. The quantitative disclosures are based on the firm's management accounts as at 31st March 2019.

Frequency

This report will be made on an annual basis.

Publication

The disclosure requirements to comply with Pillar 3 of the Capital Requirements Directive can be found in the firm's registered offices at 2-4 King Street, London SW1Y 6QL.

Risk Management Objectives

Quaero Capital LLP's Management Committee takes ultimate responsibility for the risks undertaken in all the businesses and risk management objectives and policies within the overall business strategy. These policies:

- identify the risks to which the capital of the business is exposed;
- articulate the acceptable levels of exposure to risk types; and
- are appropriate to the size, nature and complexity of transactions entered into, reflecting the quality and sophistication of the firm's monitoring capabilities, systems and processes.

Risk Management Framework

Quaero Capital LLP carries out the following controls

(a) Quarterly Management Committee Meetings of Quaero Capital LLP
(b) Monthly business review meetings
(c) Provision of regular management information including monthly management accounts.

Capital Resources

As at 31st March 2019 Quaero Capital LLP had total capital before deductions of £1,163,682.

The table below illustrates the current Tier 1 capital structure.

Quaero Capital LLP Capital Components	£ 000s
Tier 1	750
Eligible Capital	298
Audited Reserves	452
Total Tier 1	750
Tier 2	
Tier two capital	0
Total Tier 1 + 2	750
Base capital resources requirement BIPRU *(Quaero Capital LLP is a BIPRU 50k firm and a limited licence firm)*	43
Total variable capital requirement (*being the fixed overhead requirement equal to one-quarter of audited annual expenditure)*	324
Surplus of own funds	426

At present the firm has no Tier 2 or Tier 3 capital.

Disclosure on potential risks

a) Credit Risk – Quaero Capital LLP has investment management agreements with each of the funds that it manages (the "Funds"). The risk that the Funds would not pay fees due to Quaero Capital LLP is considered minimal and likely to happen only in the event of a more serious dispute between the Funds, their investors and Quaero Capital LLP.

b) Market Risk – Quaero Capital LLP does not trade on its own account and therefore does not run market risk with the exception of currency exposure arising from the generation of fees in US Dollars, Euros and Japanese yen and the sterling expense base.

c) Operational Risk – Quaero Capital LLP faces a variety of risks in its day to day operations.

In order to minimise the risk of human error in data inputting, the Firm uses the Bloomberg Asset and Investment Manager (AIM) software, which provides for a minimal amount of manual intervention. The systems are continuously upgraded and incorporate pre and post trade compliance controls and straight through processing for most transactions. Daily cash reconciliations are conducted with the relevant depositary / custodian and full monthly position reconciliations are conducted with the Administrators. A procedure for real-time back-ups of critical data to a secure off-site data centre is operated as detailed in the DR plan.

Quaero Capital LLP's Risk Manager (Richard Pell-Ilderton) also monitors a series of portfolio parameters relating to individual position sizes, exposures to sectors and countries, liquidity of positions, and net and gross exposures of portfolios and UCITS rules. The portfolio parameters are designed to ensure that at all times the Funds' portfolios are well diversified with no unhealthy concentrations of risk. The diversified nature of the portfolios which Quaero Capital LLP manages and strict position limits do provide some mitigation against the impact of potential losses.

To date, Quaero Capital LLP has not experienced any losses of an operational nature.

The occurrence of a serious loss would more than anything damage Quaero Capital LLP's reputation. The impact of this could manifest itself either as a period of reduced income or, in the worst case, the decision to close down the business.

d) Liquidity Risk – Quaero Capital LLP's assets are largely held in the form of cash deposits with maturity no greater than a month.

e) Insurance Risk – Quaero Capital LLP is not involved in writing insurance business.

f) Concentration Risk – The majority of Quaero Capital LLP's assets are managed in Japan. The firm clearly depends on the success of this strategy to be able to continue in business.

g) Residual Risk – this does not apply to Quaero Capital LLP.

h) Securitisation Risk – Quaero Capital LLP does not securitise any assets.

i) Appointed Representative Risk – As at December 2019 Quaero Capital LLP has one AR. Quaero Capital LLP is the AR's sole client under an investment advisory agreement. There is a high level of oversight by Quaero Capital LLP of the AR's activities and the AR personnel are fully subject to Quaero Capital LLP's compliance manual and other policies. Quaero Capital LLP's has increased the limit of cover under its professional indemnity insurance policy in order to address any increase in prudential risk but has not allocated any additional Pillar II capital.

j) Business Risk – Quaero Capital LLP's business success depends on its being able to deliver satisfactory returns for its investor base thereby generating the fee income on which it depends. During the global financial crisis of Q3 / Q4 2008, the Funds all suffered severe drawdowns and redemptions. This period can be seen as an extreme stress test for the business. In response to the reduction in FUM it was possible to reduce overheads quickly by approximately one-third and the firm was able to remain profitable. However, if financial markets were to come under extreme pressure once more this would clearly place an additional stress on Quaero Capital LLP's business. In a wider sense, Quaero Capital LLP depends on continuing investor appetite for its Japan and Asian-focussed products. This could suffer in a global slow down with a repatriation of capital.

There are clearly a variety of risks which may over time pose a threat to the continuing success of Quaero Capital LLP. In terms of capital, therefore, Quaero Capital LLP needs a buffer to withstand periods where there is a downturn in income generation or where it needs to make further investment in people or equipment.

k) Interest Rate Risk – Quaero Capital LLP does generate income from its cash deposits but this is considered insignificant relative to the income generated from fees and to the level of the expense base.

l) Pension Obligation Risk – Auto enrolment from 2017, Quaero Capital LLP automatically enrolled members of staff into NEST. This is a defined contribution scheme and therefore does not carry the funding risks associated with a defined benefits scheme.

m) Other Risks – Quaero Capital LLP has executive partners. Clearly, losing any one of those individuals for whatever reason would have an impact on the business. Similarly, the business depends on their continued willingness to work together.

As indicated above, the three most significant risks that the firm faces are (i) operational, (ii) business and (iii) other. It has been determined to allocate a buffer of £300,000 equally between them as indicated in the table below.

	Pillar 1	**ICAAP**
	Minimum capital £ thousands	Firm's Pillar 2 capital £ thousands
Credit risk	75	
Market risk	47	
Operational risk		
Fixed Overhead requirement	324	
Pillar 1 total *	324	
Pillar 2 operational risk		100
Pillar 2 business risk		100
Pillar 2 other risk		100
ICAAP Capital		
Current total capital	750,000	750
Surplus	426	450

* Pillar 1 total is the higher of (1) the sum of (a) the credit risk capital requirement and (b) the market risk capital requirement and (2) the fixed overhead requirement

Statement of Risk Appetite

All significant new business developments are subject to Management Committee approval.

Remuneration Code

Quaero Capital LLP is in proportionality tier 4 for the purposes of the FCA's Remuneration Code.

Decision-making process for remuneration policy

The firm's Management Committee is responsible for considering and approving the remuneration policy for all members of the firm. The members of the Management Committee are currently Richard Pell-Ilderton, Rupert Kimber, Jean Keller and Francesco Samson.

Link between pay and performance

The firm aims to provide incentives to link rewards with the long term performance and success of the firm and the funds that it manages on behalf of its clients.

Design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria

All Code Staff are executive partners in the firm and likewise all executive partners are treated as Code Staff. The executive partners receive fixed monthly drawings on account of current year net profits from the partnership. The level of the monthly drawings is set by the Management Committee at a prudent level taking account of projected net profits for the financial year derived from monthly management accounts. Criteria for performance measurement include the overall contribution which an individual has made to the Firm's business.

Performance criteria on which remuneration is based

The firm's remuneration policy does not rely on a fixed formula or numerical scale since qualitative as well as quantitative factors are considered to be relevant when assessing an individual's contribution.

Aggregate quantitative information on remuneration

There are 4 Code Staff comprising all the executive partners in the firm.

Total partners' drawings for the year ending 31st March 2019 are disclosed in the audited accounts prepared as at that date.